

Message Text

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TO SECSTATE WASHDC 8420
INFO AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

UNCLAS SECTION 1 OF 2 BRASILIA 5847

EO 11652 NA
TAGS ETRD ECON BR
SUBJECT: FURTHER OFFICIAL COMMENT ON LAW OF SIMILARS

REF: BRASILIA 5702

1. SUMMARY- PLANNING MINISTER REIS VELLOSO AND MARCOS VIANNA, HEAD OF THE BNDE (NATIONAL ECONOMIC DEVELOPMENT BANK), MADE CONTRIBUTIONS TO THE NATIONAL DEBATE ON THE LAW OF SIMILARS JULY 21, 1978. A PRESS RELEASE FROM THE OFFICE OF THE MINISTER OF PLANNING STATED THAT THE CURRENT GOVERNMENT "AT MOST CAN COMPLETE PRELIMINARY STUDIES, PRESERVING THE ORIENTATION TOWARD MAINTAINING ADEQUATE PROTECTION OF INDUSTRY LOCATED IN THE COUNTRY." VIANNA CITED BOTH COSTS AND BENEFITS FROM THE LAW OF SIMILARS BUT ADDED THAT UNTIL AN ALTERNATIVE MEASURE TO PROTECT NATIONAL INDUSTRY CAN BE EXAMINED BY BOTH GOVERNMENT AND INDUSTRY "THERE CAN BE NO THOUGHT OF THE EXTINCTION OF THE LAW OF SIMILARS." THESE STATEMENTS NOTWITHSTANDING, MINISTER OF COMMERCE CALMON DE SA STATED TO THE PRESS JULY 24 THAT THE COORDINATING COUNCIL OF CDI (COUNCIL FOR INDUSTRIAL DEVELOPMENT) WILL MEET JULY 31 TO DISCUSS AN ALTERNATIVE MECHANISM TO THE CURRENT LAW OF SIMILARS. EXPLANATIONS THAT ANY CHANGES WILL NOT BE MADE IMMEDIATELY AND OTHER FORMS OF PROTECTION WILL BE
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OFFERED HAS COOLED, AT LEAST SOMEWHAT, BUSINESS CRITICISM. END SUMMARY.

2. AFTER THE PROTEST RAISED BY MINISTER OF COMMERCE CALMON DE SA'S SPEECH IN RIO, A SPEECH RAISING THE POSSIBILITY OF THE ABOLITION OF THE LAW OF SIMILARS, SEVERAL GOVERNMENT SPOKESMEN HAVE ISSUED CLARIFICATIONS DENYING THAT ANY CHANGE IS IMMINENT. THE PLANNING

MINISTRY ISSUED A STATEMENT DEFENDING CALMON DE SA'S THESIS THAT METHODS OF PROTECTION OF DOMESTIC INDUSTRY CAN BE INEFFICIENT, BUT ASSURING NO ACTION WILL BE TAKEN BY THE CURRENT ADMINISTRATION. THIS STATEMENT MADE CLEAR THAT THE GOVERNMENT IS "CONTINUALLY EXAMINING

METHODS TO IMPROVE AND DEBUREAUCRATIZE THE INSTRUMENTS USED TO SUPPORT

NATIONAL INDUSTRY." IT ADDED THAT THE LEVELS OF PROTECTION ENJOYED BY NATIONAL INDUSTRY WILL "OVER THE LONG....TEND TO PROGRESSIVELY DECLINE...IN ORDER TO AVOID INEFFICIENCIES."

3. HAVING MADE A BOW TO ECONOMIC THEORY AND ACADEMIC CRITICS OF BRAZIL'S ELABORATE REGIME OF IMPORT RESTRICTIONS, THE PLANNING MINISTRY WENT ON TO DEFUSE PROTESTS BY THE POLITICALLY SENSITIVE SAO PAULO INDUSTRIAL SECTOR (SEE REFTTEL). "ON THE OTHER HAND, THE GOVERNMENT CAN DO NOTHING TO DAMAGE THE GOAL TO OBTAIN A GROWING SURPLUS IN THE (EXTERNAL) TRADE ACCOUNT OVER THE NEXT SEVERAL YEARS, WHICH IS VITAL TO MAINTAIN CONTROL OVER THE BALANCE OF PAYMENTS. EQUALLY, IT CANNOT LEAVE WITHOUT ADEQUATE GUARANTEES OF SUPPORT AND PROTECTION, THE LARGE AND COMPLEX INDUSTRIAL BASE ALREADY IN PLACE, WHICH CONTINUOUSLY INCREASES ITS COMPETITIVENESS, INCLUDING ITS EXPORTS (TO WORLD MARKETS)." FINALLY, THE STATEMENT ASSURED THE BUSINESS COMMUNITY THAT NO CHANGES ARE IMMINENT AND THAT ANY CHANGE WOULD BE DISCUSSED FIRST WITH THE PRIVATE SECTOR. "THE SUBJECT OF THE LAW OF SIMILARS MUST BE ANALYZED WITH CAUTION AND UNCLASSIFIED

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WITH COOPERATION BETWEEN THE GOVERNMENT AND THE PRIVATE SECTOR. THE AUTHORITIES ARE OPEN TO THIS TYPE OF JOINT VENTURE. IT DOES NOT APPEAR TO US, HOWEVER, THAT THE PROPOSALS WILL BE READY FOR A DECISION BY THE CURRENT GOVERNMENT. AT MOST, (THE CURRENT GOVERNMENT) CAN COMPLETE PRELIMINARY STUDIES, PRESERVING THE ORIENTATTION TOWARD MAINTAINING ADEQUATE PROTECTION OF INDUSTRY LOCATED IN THE COUNTRY."

4. THE CLARIFYING STATEMENT BY MARCOS VIANNA, PRESIDENT OF THE NATIONAL ECONOMIC DEVELOPMENT BANK (BNDE)

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CONTAINED THE SAME FUNDAMENTAL POINTS, STATING THAT THE LAW OF SIMILARS HAS BOTH COSTS AND BENEFITS TO THE COUNTRY. "THE BENEFITS, THROUGH THE PROTECTION OF INFANT INDUSTRY, ARE NOT YET COMPLETELY CONSOLIDATED AND THE COST INCLUDES THE BUREAUCRATIC SUPER-STRUCTURE THAT IS IMPOSED ON THESE FIRMS". VIANNA POINTED TO THE CAPITAL GOODS SECTOR WHERE EFFORTS TO SUPPORT THE INDUSTRY "LED TO A NOTABLE EXPANSION OF NATIONAL PRODUCTION CAPACITY OF MACHINERY AND EQUIPMENT" AND ARGUED THAT THIS ADVANCE MEANS THE "THE LEVEL OF ASSISTANCE SHOULD BE MAINTAINED". ON THE COMPETITIVENESS OF BRAZILIAN INDUSTRY, VIANNA AFFIRMED THAT "THERE ALREADY EXISTS IN THE COUNTRY AN INDUSTRIAL BASE IN THE MACHINERY SECTOR, INCLUDING HEAVY MACHINERY, AMONG THE MOST IMPORTANT IN THE WORLD. IT IS BEGINNING TO ACHIEVE THE CONDITIONS WHERE IT WILL BE, IN A RELATIVELY SHORT TIME, COMPLETELY COMPETITIVE INTERNATIONALLY. AS A MATTER OF FACT, SOME SECTORS ARE ALREADY COMPETITIVE AND HAVE SURPASSED THE INFANT STAGE. IT IS INDISPENSABLE, HOWEVER, THAT PROTECTION BE MAINTAINED AT AN ADEQUATE LEVEL, ALTHOUGH IT IS POSSIBLE TO HAVE PROGRESSIVE REDUCTIONS, AND ASSURE THAT BENEFITS WILL REMAIN AT A LEVEL THAT WILL ALLOW US TO BE TRANSFORMED INTO ONE OF THE MOST IMPORTANT INDUSTRIAL COMPLEXES IN THE WORLD. AND WHILE WE HAVE NOT YET FOUND A MECHANISM OF PROTECTION TO SUBSTITUTE FOR THE LAW OF SIMILARS, ANY SUBSTITUTE MECHANISM WOULD HAVE TO BE UNCLASSIFIED

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EXAMINED TOGETHER BY GOVERNMENT AND THE PRIVATE SECTOR." BUT AS YET "THERE CAN BE NO THOUGHT OF THE EXTINCTION OF THE LAW OF SIMILARS."

5. ALTHOUGH VELLOSO AND VIANNA DENIED THAT THERE WILL BE ANY IMMEDIATE

ATTEMPTS TO CHANGE THE LAW OF SIMILARS, THEY BOTH DEFENDED ITS SUBSTITUTION BY MORE EFFICIENT FORMS OF PROTECTION. SHORTLY AFTER THESE STATEMENTS (JULY 24), COMMERCE MINISTER CALMON DE SA ANNOUNCED TO THE PRESS THAT THE COORDINATING COUNCIL OF CDI WILL MEET NEXT MONDAY (JULY 31) TO DISCUSS A NEW PROTECTIVE MECHANISM TO REPLACE THE LAW OF SIMILARS. THE GAZETA MERCANTIL QUOTED THE COMMERCE

MINISTER AS SAYING THAT THE FOCUS ON THE POSSIBLE NEW APPROACH COULD BE "THE APPLICATION OF A TAX ON IMPORTS THAT DO NOT HAVE A NATIONAL SIMILAR, ALL OF THESE IMPORTS WOULD BE TAXED. ON THE OTHER HAND, WE COULD GIVE SOME TYPE OF INCENTIVE TO NATIONAL INDUSTRY, WHICH WOULD STILL HAVE TO BE STUDIED." ACCORDING TO THE ARTICLE, CALMON DE SA ADDED THAT ANY PROPOSED CHANGE WILL NOT BE IMPLEMENTED DURING THE GEISEL ADMINISTRATION. ALTHOUGH THE ARTICLE LABELED THE PROPOSED MEETING AS AN EXAMINATION OF SUBSTITUTE MEASURES OF PROTECTION

IT STATED THAT THE COMMERCE MINISTER RECOGNIZED THAT EXCESSIVE PROTECTION OF NATIONAL INDUSTRY COULD PROVOKE REPRISALS BY OTHER NATIONS." THERE ARE SECTORS OF INDUSTRY THAT DO NOT REQUIRE SUCH PROTECTION. TODAY, WE CANNOT LIVE TOGETHER WITH THIS LEVEL OF PROTECTION IN ALL INDUSTRIAL SECTORS." HE ADDED, HOWEVER, "I DO NOT MEAN TO SAY THAT PROTECTION SHOULD BE ELIMINATED....PROTECTIONISM SHOULD NOT BE CONDEMNED BECAUSE AN IMPORT SUBSTITUTION PROGRAM IMPLIES THE ADOPTION OF PROTECTIONIST MEASURES."

6. STATEMENTS BY HIGH LEVEL GOB OFFICIALS RECOGNIZING A CONTINUED NEED FOR PROTECTION FOR NATIONAL INDUSTRY, ALBEIT ONE WHICH COULD UNCLASSIFIED

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BE "PROGRESSIVELY REDUCED," APPEARS TO HAVE MOLLIFIED SOMEWHAT BUSINESS CRITISM OF MINISTER CALMON DE SA'S PROPOSAL. CARLOS VILLARES PRESIDENT OF ABDIB, STATED THAT TRANSFERENCE OF THE FORM OF PROTECTION "IS THE CORRECT FOCUS." HE ADDED THAT IF ONLY THE FORM OF INCENTIVES IS CHANGED "WE ARE PROVIDING INCENTIVES TO THE INVESTOR AND NOT THE IMPORTER." EINAR KOK, PRESIDENT OF SIMESP, CALLED THE APPROACH "WORTH STUDYING." SAYRE

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